What WorldCom is Telling the SEC

"The cash flow required to service WorldCom's debt may reduce its ability to fund internal growth, additional acquisitions, and capital improvements."

-- WorldCom SEC Form 10-K (1997), filed March 27, 1998.

WorldCom/MCI Provides No Concrete Evidence of Local Competition Plans

FCC Filings

- No concrete plans or studies provided

- Kennard letter
  Will compete "where business opportunities exist"

- No detail on source of local loop "synergy" savings
  This is all the Patel affidavit says (3/20/98 Second Joint Reply)

  SG&A: "Those savings will result from reductions in administrative costs in areas where each company owns its own networks...By relying on WorldCom's local networks, the combined company will reduce its costs for local services and thus improve its profit margins for those services." (13)

  Capital Expenditures: "The S-4 estimates were based on WorldCom's anticipation that the merger will reduce the combined company's projected local capital expenditure budget primarily by reducing duplication and by creating greater purchasing efficiencies." (14)

- Hall and Sider affidavits are silent on local synergy and local market issues.

WorldCom/MCI Fail to Provide Concrete Evidence of Local Plans to State PUCs

- **Pennsylvania:** "World Com has no current plans to expand its existing local and long distance facilities, services, or presence in the Pennsylvania market either for wholesale or retail services...WorldCom and MCI have not yet developed any specific expansion plans for Pennsylvania following the merger." (Response to GTE's First Set of Interrogatories, March 20, 1998, Question 28.)

- **Montana:** "The Applicants do not have documents discussing, analyzing, describing, or relating to the benefits to be realized specifically in Montana as a result of the proposed merger." (Responses of WorldCom and MCI to GTE's First Set of Data Requests, March 19, 1998, GTE-3)

Summary

- WorldCom/MCI fail to prove that the merger will enhance competition in the residential and small business local exchange market

- Financial evidence shows that new WorldCom/MCI must focus on high-growth, high-margin lines of business such as Internet, long distance, and international, NOT in building facilities to compete for lower margin residential and small business customers.

- Financial evidence shows that new WorldCom/MCI will have fewer financial resources.

Affidavit of David Shapiro

1. Name and Qualifications

1. I am a Principal of both Keilin & Co. LLC, and KPS Special Situations Fund, L.P. As a Principal of Keilin & Co. LLC, a New York based investment bank that represents organized labor in corporate transactions, I have been involved in a wide variety of acquisition and restructuring transactions including the employee buyouts of Algoma Steel and UAL Corp., the restructurings of Navistar International, Northwest Airlines and the New York Daily News.

2. I and my partners, Eugene Keilin and Michael Psaros, recently raised nearly $200 million in two private equity funds that will invest in troubled middle market companies. The KPS Funds expect that employee participation will be a key component of all of its transactions.

3. I graduated from the University of Michigan with High Honors in History and received an MBA with a Specialization in Finance from the University of Chicago Graduate School of Business.

2. Purpose and Overview

4. The Communications Workers of America (CWA) asked me to examine and analyze the financial statements of WorldCom, MCI and their closest competitors in the telecommunications industry. I have relied on the following information for my analysis.

5. (A) Income statements and balance sheets of MCI and WorldCom. These financial statements are available in various public filings submitted to the Securities and Exchange Commission (SEC).

6. (B) Income statements and balance sheets of MCI and WorldCom's major competitors in the telecommunications industry. These companies are: AT&T, Bell Atlantic, Bell South, GTE, Frontier, LCI, SBC Communications, and Sprint. These public financial statements are also available in filings submitted to the SEC. Keilin & Co. LLC stores most of this information in a database used to analyze the telecommunications industry. I have used this database to create the accompanying table comparing the financial attributes of WorldCom and MCI to that of its competitors. I refer to this table in my findings.

7. (C) Pro-forma income statement and balance sheet of the merged MCI-WorldCom. This is from the joint proxy statement for the special meeting of shareholders to approve the merger filed on January 22, 1998, with the SEC as Amendment No. 3 to Form S-4.

8. (D) Valuation analyses provided by WorldCom's and MCI's financial advisors, Salomon Smith Barney and Lazard Freres, respectively. These are also from the joint proxy statement.

3. Facts and findings:

9. (A) *The balance sheet of WorldCom is unlike any other telecommunications firm. It is particularly unique due to the large amount of Goodwill & Intangibles it carries as assets.* Generally Goodwill and Intangibles (G&I) is recognized only when a business is acquired at a price in excess of the fair market value of its net assets. That portion of the difference between book value and the purchase price that cannot be attributed to the market value of specific assets is generally categorized as G&I.

10. Prior to the MCI acquisition, WorldCom had the highest level of goodwill of its peer group in both absolute and relative terms. As shown in the accompanying table, WorldCom had $13

billion of G&I on its balance sheet as of September 30, 1997. AT&T, the largest telecom in terms of total assets and revenues, had only \$8.3 billion in G&I, followed by SBC which had \$3.2 billion; GTE \$3.0 billion; MCI \$2.4 billion and BellSouth \$1.8 billion.

11. Prior to its acquisition of MCI, WorldCom's G&I represented 62.5% of its total assets. By way of comparison, an index of other major telecommunications companies (AT&T, Bell Atlantic, BellSouth, GTE, Frontier, LCI, MCI, SBC, Sprint and WorldCom) reflected an industry average G&I of only 11% of total assets. Among the major companies, including AT&T, SBC, GTE, and MCI, goodwill as a percent of total assets was respectively 14.7%, 7.8%, 7.4%, 9.6%. WorldCom's tangible assets are only slightly more than one-third of its total assets. In contrast, 90.4% of MCI's assets are tangible assets and 85.4% of AT&T's assets are tangible.

12. Similarly, WorldCom's G&I represents a significantly higher percentage of shareholder equity than any other telecommunications firm. Shareholder equity is the net worth of a company after subtracting liabilities from assets and represents the book value of the shareholders investment in the corporation. WorldCom's G&I equals 97.3% of its shareholder equity, while G&I for the rest of the industry, excluding WorldCom and MCI, averaged 22.5% of shareholder equity. For the major firms, G&I as a percent of shareholder equity ranges from a high of 39.1% at GTE to a low of 20.9% for MCI.

13. The high level of G&I will result in a reduction of reported earnings in the future as the goodwill and intangibles are amortized (charged against earnings) over an extended period of time. This expense is not tax deductible.

14. The asset structure of MCI and WorldCom are rather different. In contrast to WorldCom,

MCI's balance sheet reflects relatively little Goodwill and a high level of tangible assets. As of September 30, 1997, MCI's G&I was only 9.6% of total assets and 20.9% of its shareholder equity. MCI's tangible net shareholder equity was 36.2%, third only to BellSouth and Sprint.

15. However, the new consolidated pro forma financial balance sheet of WorldCom and MCI will bear almost no resemblance to the old MCI. Instead, its key balance sheet ratios will be virtually identical to the pre-acquisition WorldCom with even *less* net tangible shareholder equity. The new MCI WorldCom will have $44 billion in G&I representing 61.6% of total assets.[1] G&I will be 99.6% of total shareholder equity. Its tangible assets will represent only 38% of the entity's total assets. The industry average is 93%.

16. In fact, the new MCI WorldCom will carry on its balance sheet a disproportionate share of total industry G&I and virtually none of the industry's tangible net shareholder equity. The new MCI WorldCom would have 72% of the total telecom industry G&I, just 11% of the industry's tangible assets, and only 0.3% of the industry's tangible net shareholder equity.

17. (B) *A new MCI-WorldCom will have a greater debt service load stemming from the all cash payment to British Telecom (BT) for its 20% stake in MCI.* WorldCom will have to undertake an additional borrowing of $7.4 billion to finance a $6.9 billion cash payment to BT, plus other estimated transaction costs of $510 million which includes a $465 million fee paid to BT[2]. The

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[1]On a pro-forma basis prior to incorporating the impact of the Brooks Fiber and CompuServe transactions, which will further increase G&I and marginalize tangible net shareholder equity

[2]Joint Merger Proxy Statement, Amendment No. 3 to Form S-4, SEC, p.93.

resulting incremental annual interest expense stemming from the merger will be $481 million[3]. As a result, there will exist an added financial burden on the new MCI-WorldCom to meet its interest obligations due to restructuring which comes about due to the acquisition. This incremental debt burden will restrict its free cash flow that it may have otherwise spent on building telecommunications infrastructure. Furthermore, the company's ability to finance expansion will be more closely linked to its lending rate. Each percentage point increase in WorldCom's lending rate will translate into an additional $74 million in annual interest expense.

18. MCI-WorldCom will be under intense pressure to achieve either revenue increases or cost savings that exceed the expense that will be recognized for both G&I and interest expense.

19. (C) *WorldCom has acquired several companies in all stock transactions.* Before WorldCom acquired MFS Communications on December 1996, it had 420 million shares outstanding. Currently WorldCom has 930 million shares outstanding. If the MCI acquisition is consummated, WorldCom will have nearly doubled the number of shares outstanding to 1.8 billion. Thus in less than two years, WorldCom will have printed some 1.3 billion shares of new stock for its acquisitions with the expectation that WorldCom will generate superior future earnings growth. WorldCom reported a net loss of $5.50 per share in 1996. For the nine months ended September 30, 1997, WorldCom reported $0.25 earnings per share.

20. (D) *WorldCom's P/E ratio is far above other telecoms.* The stock market has supported WorldCom's high P/E ratio based on expectations of future earnings growth. WorldCom's P/E

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[3]Based on WorldCom's estimated incremental borrowing rate of 6.5%.

ratio is 96, second to LCI which has a P/E ratio of 117.[4] In contrast, AT&T has a P/E ratio of 21 and GTE has 18. Sprint's P/E ratio is 31. MCI's P/E ratio is 47. The higher the P/E ratio, the greater the expectations investors have in the future earnings generating capacity of the company. A high P/E ratio can only be sustained if WorldCom management succeeds in meeting investor expectations of earnings growth well above the telecommunications industry average.

4. Conclusion

21. Based on my analysis and facts presented above, in my opinion, a merger between MCI and WorldCom will create an entity that will be under extreme pressure to deliver on promised market share growth, cost reductions and other synergies in order to bolster earnings and offset the amortization of a very substantial amount of goodwill and intangibles and incremental interest expense from transaction-related borrowings. Such pressure may cause the new MCI-WorldCom to focus on high margin, high growth segments of the industry at the expense of lower margin, lower growth segments.

I hereby swear, under penalty of perjury, that the foregoing is true and correct, to the best of my knowledge.

David Shapiro

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[4]As of March 9, 1998.

THE MERGED MCI-WORLDCOM WILL BE UNLIKE ANY OTHER MAJOR TELECOM COMPANY BECAUSE...

...ITS BALANCE SHEET WILL BE DOMINATED BY "GOODWILL AND INTANGIBLES"
...ITS TANGIBLE ASSETS WILL ONLY BE SLIGHTLY MORE THAN ONE-THIRD OF ITS TOTAL ASSETS
...IT WILL HAVE VIRTUALLY NO TANGIBLE NET SHAREHOLDER EQUITY

Major Telecom Companies (As of 9/30/97)	Goodwill & Intangibles ($millions) (As of 9/30/97)	Total Assets ($millions)	Tangible Assets ($millions)	Shareholder Equity ($millions)	Tangible Net Sh Equity ($millions)	G&I Pct of Total Assets	Tangible Assets Pct of Total Assets	G&I Pct of Shareholder Equity	Tang Net Sh Equity Pct of Total Assets
AT&T	$8,341	$56,711	$48,370	$21,985	$13,644	14.7%	85.3%	37.9%	24.1%
Bell Atlantic (Including NYNEX)*	$0	$52,891	$52,891	$12,549	$12,549	0.0%	100.0%	0.0%	23.7%
BellSouth	$1,800	$34,765	$32,965	$14,815	$13,015	5.2%	94.8%	12.1%	37.4%
GTE	$3,020	$41,041	$38,021	$7,720	$4,700	7.4%	92.6%	39.1%	11.5%
Frontier	$517	$2,340	$1,823	$1,022	$505	22.1%	77.9%	50.6%	21.6%
LCI	$348	$1,213	$865	$510	$162	28.7%	71.3%	68.2%	13.4%
MCI	$2,366	$24,717	$22,351	$11,321	$8,955	9.6%	90.4%	20.9%	36.2%
SBC	$3,289	$42,056	$38,767	$9,536	$6,247	7.8%	92.2%	34.5%	14.9%
Sprint*	$0	$17,622	$17,622	$8,915	$8,915	0.0%	100.0%	0.0%	50.6%
WorldCom	$13,003	$20,813	$7,810	$13,366	$363	62.5%	37.5%	97.3%	1.7%
Total - Major Telecom with "Old" MCI and WorldCom	$32,684	$294,169	$261,485	$101,739	$69,055	11.1%	88.9%	32.1%	23.5%
Major Telecom Excluding MCI and WorldCom	$17,315	$248,639	$231,324	$77,052	$59,737	7.0%	93.0%	22.5%	24.0%
New MCI-WorldCom Pro Forma	**$43,989**	**$71,451**	**$27,462**	**$44,177**	**$188**	**61.6%**	**38.4%**	**99.6%**	**0.3%**
Major Telecom Totals with New MCI-WorldCom Pro Forma	$61,304	$320,090	$258,786	$121,229	$59,925	19.2%	80.8%	50.6%	18.7%

	Goodwill & Intangibles	Total Assets	Tangible Assets	Shareholder Equity	Tangible Net Sh Equity
New MCI-WorldCom Share of Major Telecom Totals:	71.8%	22.3%	10.6%	36.4%	0.3%

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March 20, 1998

VIA HAND DELIVERY

Ms. Debbie Goldman
Research Economist
Communications Workers of America
501 Third Street, N.W.
Washington, DC 20001-2797

Re: Joint Application of WorldCom, Inc. and MCI (Pennsylvania)
Docket Nos. A-312025F0002 & A-310236F004

Dear Ms. Goldman:

It is WorldCom's understanding from Mr. Rubin that the Communications Workers of America prefers that WorldCom's initial response to interrogatories propounded in this proceeding be directed to your office. Accordingly, attached hereto please find the responses of WorldCom, Inc. to GTE's First Set of Interrogatories Addressed to WorldCom and MCI, Nos. 9, 15, 17, 19, 21, 22, 23, 28, 36, 37, 38, 39, 40, 41, 44, 50, 54, 58, 60, 62. Because a Protective Order has not yet been agreed to by CWA or been issued by the Administrative Law Judge, the enclosed responses and documents do not contain any Proprietary Information, and no Highly Confidential Proprietary Information can as yet be made available to counsel for CWA.

The submission of these and any future responses to GTE's interrogatories does not in any way waive any right of WorldCom to object to the production of the material.

Very truly yours,

Jean L. Kiddoo

Jean L. Kiddoo

Enclosures

cc(w/o enc.): Scott J. Rubin, Esq. (by fax)
Kathy L. Cooper, Esq.

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9. **Please provide a timeline detailing the expected dates when benefits which you allege or maintain will be realized from the proposed merger will be achieved and the dates of implementation of all necessary upgrades, cutbacks, expenditures, and other changes in order to realize these benefits.**

Initial Response:

The Applicants referred GTE to the October 15, 1997 Application and the November 26, 1997 Amendment to Application, as well as the November 10, 1997 press release announcing the transaction, attached to their initial response as Exhibit A, a transcript of the analyst conference call announcing the transaction, attached to their initial response as Exhibit B, and the Form S-4/A filing with the Securities Exchange Commission, available at <http://www.sec.gov> and provided to GTE's counsel.

Supplemental Response:

WorldCom has not yet developed a time line detailing the expected dates when benefits from the proposed merger will be realized and the dates of implementation of all necessary upgrades, cutbacks, expenditures, and other changes in order to realize these benefits. X

Response Provided By: David N. Porter

17. **Please provide a timeline detailing the expected dates when efficiency savings will be achieved and the dates of implementation of all necessary cutbacks, reduced expenditures, closures and other changes in order to achieve these efficiencies.**

Initial Response:

The Applicants referred GTE to the October 15, 1997 Application and the November 26, 1997 Amendment to Application, as well as the November 10, 1997 press release announcing the transaction, attached to their initial response as Exhibit A, a transcript of the analyst conference call announcing the transaction, attached to their initial response as Exhibit B, and the Form S-4/A filing with the Securities Exchange Commission, available at <http://www.sec.gov> and provided to GTE's counsel.

Supplemental Response:

See Supplemental Response to GTE's First Set of Interrogatories and Requests for Production of Documents No. 9.

Response Provided By: David N. Porter

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

In re Application of **WORLDCOM, INC.** For Approval to Transfer Control of MCI Communications Corporation to WorldCom, Inc.	**Docket No. D97.10.191**

AMENDED RESPONSES OF
WORLDCOM, INC. AND MCI COMMUNICATIONS CORPORATION
TO GTE'S FIRST SET OF DATA REQUESTS

WorldCom, Inc. ("WorldCom") and MCI Telecommunications Corporation ("MCI"), in accordance with the Notice of Commission Action dated March 13, 1998 in response to the objections of WorldCom and MCI to GTE's data requests, submit the following Responses to GTE's Data Requests filed on February 24, 1998.

GTE-2 Re: Timeline of benefits

Please provide a timeline detailing the expected dates when benefits from the proposed merger will be realized and the dates of implementation of all necessary upgrades, cutbacks, expenditures, and other changes in order to realize these benefits.

Response:

The Applicants have not yet developed a specific time line for Montana "detailing the expected dates when benefits from the proposed merger will be realized and the dates of implementation of all necessary upgrades, cutbacks, expenditures and other changes in order to realize these benefits."

However, as to general information regarding benefits of the merger, the Applicants refer GTE to the October 15, 1997 Application of WorldCom to transfer control of MCI, the November 24, 1997 Supplemental Letter as well as the November 10, 1997 press release announcing the transaction, which is attached hereto as Exhibit A, a transcript of the analyst conference call announcing the transaction, which is attached hereto as Exhibit B, and the Form S-4/A filing with the Securities Exchange Commission, available at <http://www.sec.gov> and provided to GTE's counsel.

Response Provided By: WorldCom: David N. Porter; MCI: Rebecca J. Bennett

GTE-3 Re: Benefits of proposed merger

Please provide all documents discussing, analyzing, describing, or relating to the benefits to be realized as a result of the proposed merger.

Response:

The Applicants do not have documents discussing, analyzing, describing or relating to the benefits to be realized specifically in Montana as a result of the proposed merger.

However, as to general information regarding benefits of the merger, the Applicants refer GTE to the October 15, 1997 Application of WorldCom to transfer control of MCI, the November 24, 1997 Supplemental Letter as well as the November 10, 1997 press release announcing the transaction, which is attached hereto as Exhibit A, a transcript of the analyst conference call announcing the transaction, which is attached hereto as Exhibit B, and the Form S-4/A filing with the Securities Exchange Commission, available at <http://www.sec.gov> and provided to GTE's counsel.

Response Provided By: WorldCom: David N. Porter; MCI: Rebecca J. Bennett